

# San Bernardino Associated Governments

Basic Financial Statements  
Fiscal Year Ended June 30, 2006

**McGladrey & Pullen**  
Certified Public Accountants

McGladrey & Pullen, LLP is a member firm of RSM International,  
an affiliation of separate and independent legal entities.

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## Section I

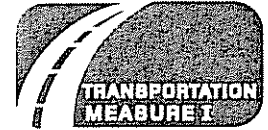
### Introductory Section



## San Bernardino Associated Governments

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- 
- San Bernardino County Transportation Commission ■ San Bernardino County Transportation Authority
  - San Bernardino County Congestion Management Agency ■ Service Authority for Freeway Emergencies
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**November 30, 2006**

To the Citizens of San Bernardino County, California:

The Annual Financial Report of San Bernardino Associated Governments (SANBAG), California, and our related agencies for the Fiscal Year ended June 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with SANBAG. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of SANBAG. To provide a reasonable basis for making these representations, SANBAG has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of SANBAG's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, SANBAG's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

SANBAG's financial statements have been audited by McGladrey & Pullen, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of SANBAG for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that SANBAG's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of SANBAG was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in SANBAG's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. SANBAG's MD&A can be found immediately following the report of the independent auditors.

## Profile of SANBAG

SANBAG is a council of governments and transportation planning agency, governed by the mayors of the twenty-four cities and the five members of the Board of Supervisors within San Bernardino County. SANBAG serves the \$1.9 million residents of San Bernardino County and enjoys the membership of the County of San Bernardino and all cities within the county: Adelanto, Apple Valley, Barstow, Big Bear Lake, Chino, Chino Hills, Colton, Fontana, Grand Terrace, Hesperia, Highland, Loma Linda, Montclair, Needles, Ontario, Rancho Cucamonga, Redlands, Rialto, San Bernardino, Twentynine Palms, Upland, Victorville, Yucaipa, and Yucca Valley.

Since its creation as a Council of Governments in 1973, SANBAG has been designated to serve as several additional authorities, created primarily by statute, which are all organized under the umbrella of the Council of Governments. These authorities are listed below:

As the **County Transportation Commission**, SANBAG is responsible for short- and long-range transportation planning within San Bernardino County, including coordination and approval of all public mass transit service, approval of all capital development projects for mass transit and highway projects, and determination of staging and scheduling of construction relative to all transportation improvement projects in the Transportation Improvement Program.

As the **County Transportation Authority**, SANBAG is responsible for administration of the voter-approved half-cent transportation transactions and use tax which is estimated to generate over \$1.6 billion through 2010 for funding of major freeway construction, commuter rail service, local street and road improvements, special transit service for the elderly and disabled population, and traffic management and environmental enhancement efforts.

As the **Service Authority for Freeway Emergencies**, SANBAG operates a system of over 1,620 call boxes on State freeways and highways within San Bernardino County.

As the **Congestion Management Agency**, SANBAG manages the performance level of the regional transportation system in a manner which ensures consideration of the impacts from new development and promotes air quality through implementation of strategies in the adopted air quality plans.

As a **Subregional Planning Agency**, SANBAG represents the San Bernardino County subregion and assists the Southern California Association of Governments in carrying out its functions as the metropolitan planning organization. SANBAG performs studies and develops consensus relative to input into regional growth forecasts, regional transportation plans, and mobile source components of the air quality plans.

The annual budget serves as the foundation for SANBAG's financial planning and control. SANBAG begins by reviewing short-term direction, assessing needs, evaluating resources, and then developing the budget. Budget involvement includes all SANBAG staff members. Finance staff prepares revenue projections, the administrative budget, and completes set up of SANBAG's budget system for the new fiscal year by February 1. Task managers develop a detailed line item budget and submit them to the Chief Financial Officer by the last day of February. The Chief Financial Officer then compiles the draft budget documents and presents the information to SANBAG's management staff for review. The Executive Director reviews the entire budget for overall consistency with both the short and long-term strategic direction of the Board of Directors, the appropriateness of funding sources for the identified tasks, and any recommended staffing changes. Support staff assists in the review and preparation of documents and submits them to the Director of Management Services, the Chief Financial Officer and the Clerk of the Board/Administrative Assistant for finalization.

## **Factors Affecting Financial Condition**

San Bernardino County, which together with Riverside County forms the Inland Empire, has one of the fastest growing populations and economies in the U.S. The most recent data show that the county is experiencing continued growth in new home construction, population, employment and retail sales. Importantly, this growth is experiencing a qualitative shift as well-educated younger workers migrate inland from Southern California's coastal counties. The Inland Empire is now experiencing growth in its office market sector which should be a positive force in its economy. Rapid economic growth coupled with affordability of housing in the Inland Empire will result in positive growth for the region. This growth is expected to continue in the region well into the future.

## **Long-term Planning**

Voters approved the extension/renewal of the local sales and transaction use tax in November 2004. SANBAG is currently working on a strategic plan for the implementation of this 30-year extension, designed to improve transportation and goods movement. During the next two years, SANBAG will be exploring economically viable ways to advance these transportation projects so they may be enjoyed by the citizens of San Bernardino County as soon as possible.

## **Cash Management Policies and Practices**

SANBAG has an investment policy, approved by the SANBAG Board of Directors, to provide guidance for all SANBAG funds. There are three basic types of investments: bond proceeds, pool funds, and direct investments. The idle cash for Fiscal Year 2005/2006 was invested in pools (such as the County Pool or the State Pool) and directly in U.S. T-Bills, U.S. Government Agency Securities, Commercial Paper and Money Market Mutual Funds. The average investment rate for the year was approximately 4.0% and the average maturity was 210 days.

## **Risk Management**

As part of an ongoing effort, SANBAG continues to develop a risk management program for workers' compensation. Additionally, various control techniques, including employee accident prevention training, have been implemented during the year to minimize accident-related losses. Third-party coverage is maintained for all workers' compensation claims. An insurance broker, who was selected through a competitive process, assists SANBAG with its selection of policies.

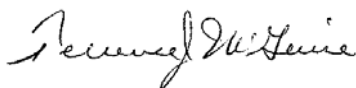
## **Retirement**

SANBAG participates in the San Bernardino County Employee's Retirement System. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that SANBAG must make to the plan to ensure that the plan will be able to fully meet its obligations to retired employees.

## **Acknowledgements**

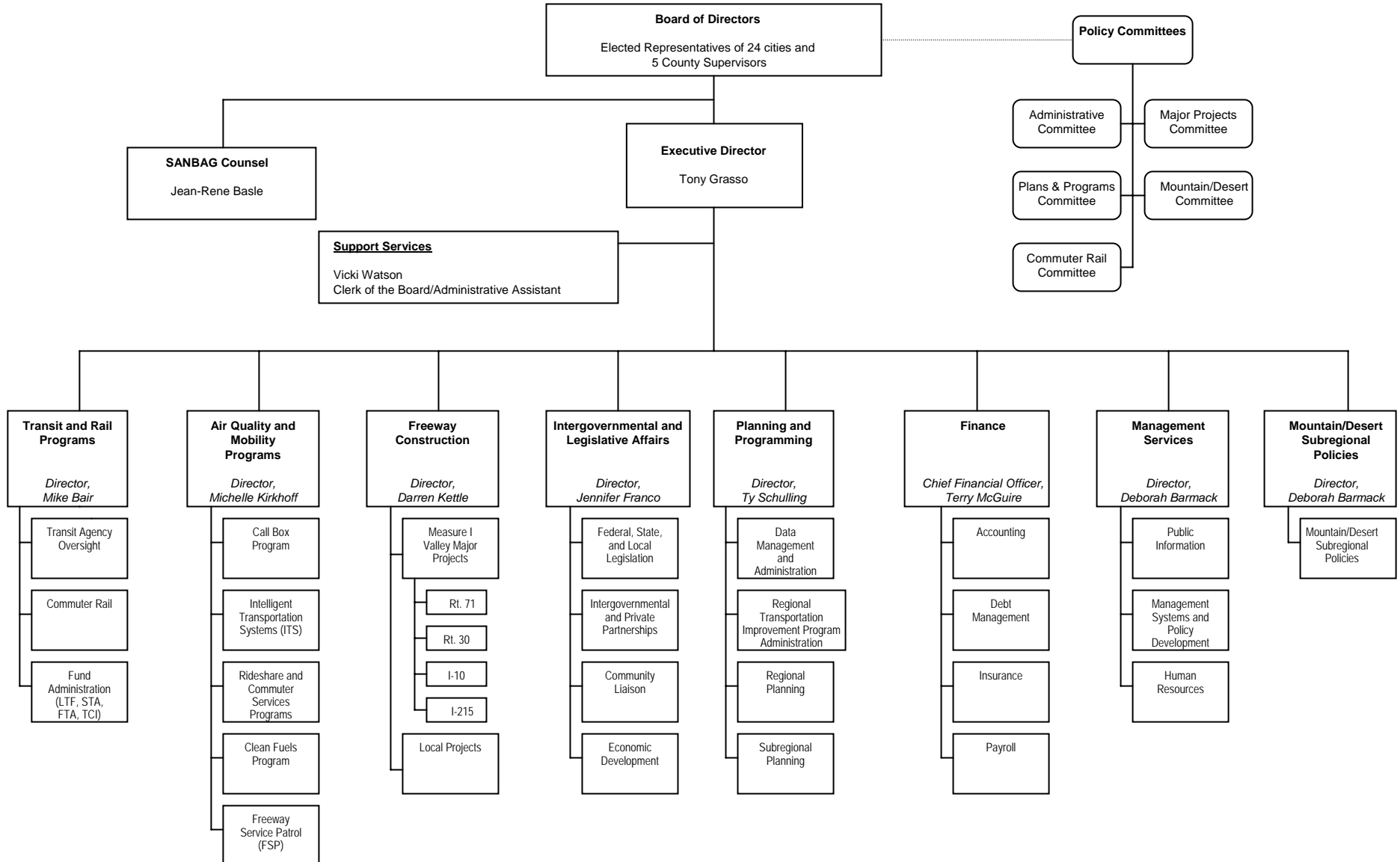
The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Finance Department. Credit also must be given to the SANBAG Board of Directors for their unfailing support for maintaining the highest standards of professionalism in the management of SANBAG's finances.

Respectfully submitted,



Terrence J. McGuire  
Chief Financial Officer

# SANBAG Organization Chart



**San Bernardino Associated Governments  
Board of Directors**

**As of June, 2006**

President

Kelly Chastain, Council Member,  
City of Colton

Jim Nehmens, Mayor  
City of Adelanto

Rick Roelle, Mayor Pro Tem  
Town of Apple Valley

Lawrence Dale, Mayor  
City of Barstow

Darrell Mulvihill, Council Member  
City of Big Bear Lake

Dennis Yates, Mayor  
City of Chino

Gwenn Norton-Perry, Council Member  
City of Chino Hills

Mark Nuaimi, Mayor  
City of Fontana

Bea Cortes, Mayor Pro Tem  
City of Grand Terrace

James Lindley, Council Member  
City of Hesperia

Larry McCallon, Council Member  
City of Highland

Robert Christman, Council Member  
City of Loma Linda

Paul Eaton, Mayor  
City of Montclair

Rebecca Valentine, Council Member  
City of Needles

Alan Wapner, Mayor Pro Tem  
City of Ontario

Diane Williams, Mayor Pro Tem  
City of Rancho Cucamonga

Vice-President

Dennis Hansberger, Supervisor  
County of San Bernardino

Pat Gilbreath, Council Member  
City of Redlands

Grace Vargas, Mayor  
City of Rialto

Pat Morris, Mayor  
City of San Bernardino

Kevin Cole, Council Member  
City of Twentynine Palms

John Pomierski, Mayor  
City of Upland

Mike Rothschild, Mayor  
City of Victorville

Richard Riddell, Mayor  
City of Yucaipa

Paul Cook, Mayor  
Town of Yucca Valley

Paul Biane, Supervisor  
County of San Bernardino

Bill Postmus, Supervisor  
County of San Bernardino

Josie Gonzales, Supervisor  
County of San Bernardino

Gary Ovitt, Supervisor  
County of San Bernardino

Michael Perovich, Caltrans  
Ex-Officio Member

Tony Grasso  
Executive Director



## Section II

### Financial Section

## Independent Auditor's Report

Board of Directors  
San Bernardino Associated Governments  
San Bernardino, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Bernardino Associated Governments (SANBAG), as of and for the year ended June 30, 2006, which collectively comprise SANBAG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of SANBAG's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of SANBAG, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2006 on our consideration of SANBAG's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SANBAG's basic financial statements. The combining nonmajor fund financial statements, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*McGladrey & Pullen, LLP*

Riverside, California  
November 20, 2006

## **Management's Discussion and Analysis**

As management of SANBAG, we offer readers of SANBAG's financial statements this narrative overview and analysis of the financial activities of SANBAG for the Fiscal Year 2005/2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

## **Financial Highlights**

- SANBAG's Statement of Net Assets reflects total assets of \$362,098,181 and total liabilities of \$167,034,996.
- SANBAG's total net assets increased by \$59,350,297 as indicated on the Statement of Activities.
- SANBAG did not issue any additional sales tax revenue bonds during Fiscal Year 2005/2006 and did not incur any additional debt.
- SANBAG's revenue increased for Fiscal Year 2005/2006 by over 21%. This growth is attributed to increased sales tax, local transportation fund, investment income, and Federal and State grant revenues.
- Voters approved the extension of Measure I sales tax through the year 2040 beginning in 2010.

## **Overview of Financial Statements**

This discussion and analysis are intended to serve as an introduction to SANBAG's basic financial statements. SANBAG's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements**—The government-wide financial statements are designed to provide readers with a broad overview of SANBAG's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of SANBAG's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of SANBAG is improving or deteriorating.

The statement of activities presents information showing how SANBAG's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

The statement of activities distinguishes functions of SANBAG that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges or operating grants and contributions. The governmental activities of SANBAG are composed in large part by disbursements to cities, subareas, transit operators and claimants and highways. The other functional areas i.e., professional services, contributions to other governments and long-term debt support the above mentioned two primary functional areas. The management and technical function supports the Service Authority for Freeway Emergency program.

The government-wide financial statements include only the financial information for SANBAG and its component unit, SAFE itself. The government-wide financial statements can be found on pages 9 and 10.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. SANBAG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the governments near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

SANBAG maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for its major governmental funds which consist of: the General Fund, Local Transportation Fund, Measure I Special Revenue Fund, Other Special Revenue Fund, and Debt Service. Individual fund data for each of the non-major governmental funds are provided in the form of combining statements elsewhere in this report.

SANBAG adopts an annual budget on a project basis and establishes an appropriations limit for all of its governmental funds.

The basic governmental fund financial statements can be found on pages 11–16.

**Proprietary funds.** SANBAG only maintains one type of proprietary fund, an internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among SANBAG's various functions. SANBAG uses its internal service funds to account for the SANBAG building and for tracking any associated maintenance costs. Because this activity benefits the governmental funds, it has been included within governmental activities in the government-wide financial statements.

Propriety funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the SANBAG building and associated maintenance.

The basic proprietary fund financial statements can be found on pages 17–19.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20–33 of this report.

### Government-wide Financial Analysis

As noted earlier, net assets and other elements of the statement of net assets may serve over time as a useful indicator of SANBAG'S financial position. At June 30, 2006, SANBAG's assets exceeded liabilities by \$195,063,185.

The largest portion of SANBAG's net assets reflects its cash and investments. The restricted investments are split between future obligations for debt service requirements and for future capital project commitments. While the balance of the cash is invested primarily for capital project activity, smaller amounts are set aside for management and technical services and for professional services related to agency wide activities.

Unrestricted net assets represent the portion of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements. Unrestricted net assets from governmental activities are (\$113,126,376); this amount results in part from the impact of SANBAG's debt on the Statement of Net Assets. While the debt has been incurred to build highways which are capital assets, upon completion the highway projects are transferred to the State of California, Department of Transportation. Accordingly, these projects are not assets that offset debt in the Statement of Net Assets.

Net Assets	FY 05/06	FY 04/05
Current and other assets	\$ 297,612,836	\$ 275,043,976
Capital Assets, net of accumulated depreciation	64,485,344	64,556,144
Total assets	<u>362,098,180</u>	<u>339,600,120</u>
Noncurrent Liabilities	108,643,240	172,499,854
Other liabilities	58,391,753	31,387,374
Total Liabilities	<u>167,034,993</u>	<u>203,887,228</u>
Net assets:		
Invested in capital assets	64,485,344	64,556,144
Restricted	243,704,215	207,449,919
Unrestricted	(113,126,372)	(136,293,171)
Total net assets	<u>\$ 195,063,187</u>	<u>\$ 135,712,892</u>

SANBAG's total net assets increased from \$135,712,892 to \$195,063,185. The change in net assets of SANBAG's activities increased by approximately 43%, or \$59,350,297. This significant increase in net assets can be attributed to an increase in Federal, State, TDA LTF, and Measure I funding.

## Governmental Activities

Changes in Net Assets	FY 05/06	FY 04/05
Program revenues:		
Charges for services	\$ 1,671,851	\$ 1,575,365
Operating grants and contributions	152,834,456	116,337,903
General revenues:		
Measure I sales tax	147,027,423	131,623,042
Gain on Sale of Capital Assets	228,460	523,593
Interest income	7,746,517	4,924,723
Total revenues	<u>309,508,707</u>	<u>254,984,626</u>
Expense:		
General government	10,232,248	8,848,350
Disbursements to others	113,513,444	104,425,504
Contributions	16,884,868	11,066,460
Professional services	24,791,741	19,167,437
Management technical	186,542	210,115
Highways	77,867,274	44,531,970
Interest on long-term debt	6,682,295	9,115,952
Total expenses	<u>250,158,412</u>	<u>197,365,788</u>
Increases in net assets	<u>59,350,295</u>	<u>57,618,838</u>
Net assets, beginning	135,712,892	78,094,054
Net assets, ending	<u>\$ 195,063,187</u>	<u>\$ 135,712,892</u>

Retail taxable sales grew in San Bernardino County at the rate of 15.2% in calendar year 2005. This resulted in an increase in Measure I sales tax shown above. This in turn resulted in an equivalent increase in the disbursements to others, which represents that portion of the Measure I program which passed through to the cities.

Contributions expenditures increased in fiscal year 2005/06 primarily due to the US-395 Interim Project, and an increase in Article 3 contributions to SCRRA as well as capital improvement projects.

Highway expenditures increased significantly in fiscal year 2005/06 as a result of a full year of incurred expenditures on the construction of the I-210 freeway. Additionally, the financials reflect eight months of incurred expenditures on the I-10 Median mixed flow lanes project which was awarded in FY2005/06.

Due to the implementation of I-215 right-of-way acquisitions in FY2005/06, professional services expenditures increased.

The increase in interest income can be attributed solely to the increased earnings rate. SANBAG earned approximately 1.7% more on its portfolio in FY05/06 than in FY04/05.

## Financial Analysis of SANBAG's Funds

Changes in Year-end Fund Balances	FY 05/06	FY 04/05	% Change
General Fund	\$ 3,495,650	\$ 2,851,994	22.57%
Special Revenue-Local Transportation Fund	65,622,325	59,662,401	9.99%
Special Revenue-Measure I Fund	151,060,622	122,059,544	23.76%
Special Revenue-Other	1,236,469	2,779,587	-55.52%
Special Revenue-State Transit Assistance Fund	22,669,159	18,149,777	24.90%
Special Revenue-Service Authority for Freeway Emergencies Fund	638,971	952,341	-32.91%
Debt Service Fund	18,251,569	28,709,615	-36.43%

The increase in the General Fund balance is primarily the result of increased local transportation fund funding, increased investment earnings, and a reduction in General Fund expenditures incurred. The increase in the Measure I Fund balance is the result of an increase in Measure I funding of 12% and the ability to postpone expenditures by using other federal and state funds. The Measure I Fund balance will be reduced in future periods as the Measure I project expenditures increase. The decrease in the Special Revenue-Other Fund balance is primarily due to use of prior year carryover fund balance held for projects.

The increase in the State Transit Assistance Fund balance is tied to the State Budget and recently passed Prop 42 that guaranteed that state sales tax on gasoline would not be diverted to the State General Fund, increased interest earnings, and a reduction in transit agency drawdowns for capital projects. The reduction in the Service Authority for Freeway Fund balance is due to completion of upgrading callboxes from an analog to digital cellular service; a one-time project where fund balance was used in order to complete the project. The reduction in the Debt Service Fund balance is due to the transfer of interest earnings held in the reserve fund by the trustee, Bank of New York, into Measure I funds for reinvestment purposes.

### General Budgetary Highlights

Differences between the original budget and the final amended budget can be briefly summarized as follows:

- SANBAG uses encumbrance accounting. At such time when the encumbrances for the fiscal year are finalized, they are approved by SANBAG Board of Directors and included in the budget requirements for the related fiscal year. This is by far and large the greatest increase, annually, to the SANBAG budget.
- On occasion, SANBAG will be aware of potential funding sources, but not be in receipt of any documentation that would confirm revenue allocation. Typically, SANBAG does not budget for these revenues until such time as a contract or supplement is executed. Upon Board approval, these funds would be added to the SANBAG budget via a budget amendment.
- During the course of the year, additional projects are approved and these actions may or may not have been consistent with the adopted fiscal year budget. An amendment is approved at this time, if necessary.

### Capital Assets

SANBAG's investment in capital assets for its government-type activities as of June 30, 2006, amounts to \$64,485,344 (net of accumulated depreciation). There were no significant capital outlays for Fiscal Year 2005/2006.



## Debt Administration

Long-term debt—At the end of 2006, SANBAG had total bonded debt outstanding of \$139,005,000. These sales tax revenues bonds are backed by full faith and credit of SANBAG's Measure I Sales and Transaction Use Tax.

- During Fiscal Year 2005/2006, SANBAG did not issue any additional debt.
- SANBAG did not refinance any of the sales tax revenues bonds.
- As of this writing, it is anticipated that SANBAG will not need to issue additional debt for the rest of the current Measure I Sales Tax Transaction and Use Tax.
- SANBAG continues to be well below the \$500 million indebtedness limit as set by Ordinance 89-1, Measure I Sales Tax Transaction and Use Tax.

## Economic Factors and Next Year's Budgets and Rates

SANBAG continues to utilize expert professionals to evaluate revenue forecasts and provide the assumptions for future budgets.

- In 2005, San Bernardino County's retail sales increased 15.6% according to the California Board of Equalization.
- Retail sales growth is being driven by the population increase. From January 1, 2005, to January 1, 2006, the California Department of Finance reported that the county had the third highest absolute growth in California, up 41,023 people or 2.10% for a total population of 1,991,829.
- Per capita retail sales in the county increased from \$13,669 in calendar year 2004 to \$15,172 in calendar year 2005, up 11%.
- The U.S. Bureau of the Census indicated in the American Community Survey that median household income in the county increased 3.8% from \$47,221 in 2004 to \$49,026 in 2005.
- The Employment Development Department of the State of California, with data revised to reflect Bureau of Labor Statistics Standards, indicated average monthly employment in the county increased 4.8% from 1,178,717 in 2004 to 1,235,375 in 2005.

It is expected that San Bernardino County will continue to grow as a result of available land, available jobs, and housing prices below the Southern California median.

## Requests for Information

This financial report is designed to provide a general overview of SANBAG's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Financial Officer, San Bernardino Associated Governments, 1170 W. 3rd St., Second Floor, 92410-1715.

San Bernardino Associated Governments

Statement of Net Assets  
June 30, 2006

	Governmental Activities
<b>Assets</b>	
Cash and Investments	\$ 223,714,971
Receivables	
Interest	2,162,636
Intergovernmental	57,469,585
Other	21,161
Prepaid Items	171,144
Restricted Investments	13,522,113
Deferred Charges	551,226
Capital Assets, net of accumulated depreciation	64,485,344
<b>Total assets</b>	<b>362,098,180</b>
<b>Liabilities</b>	
Accounts Payable and Other Accrued Expenses	12,660,704
Due to Other Governments	11,076,032
Accrued Interest Payable	2,277,436
Deferred Revenue	63,929
Noncurrent Liabilities	
Due within one year	32,313,652
Due in more than one year	108,643,240
<b>Total liabilities</b>	<b>167,034,993</b>
<b>Net Assets</b>	
Invested in Capital Assets	64,485,344
Restricted for	
Disbursement to cities, subareas, transit operators and claimants	166,298,465
Highway construction	51,086,474
Other restricted	26,319,276
Unrestricted (Deficit)	(113,126,372)
<b>Total net assets</b>	<b>\$ 195,063,187</b>

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Activities  
Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
General government	\$ 10,232,248	\$ 1,671,851	\$ 116,797	\$ (8,443,600)
Disbursements to cities, subareas, transit operators and claimants	113,513,444	-	78,922,018	(34,591,426)
Contributions to other governmental agencies	16,884,868	-	-	(16,884,868)
Professional services	24,791,741	-	6,222,728	(18,569,013)
Management and technical services	186,542	-	-	(186,542)
Highways	77,867,274	-	67,572,913	(10,294,361)
Interest on long-term debt	6,682,295	-	-	(6,682,295)
<b>Total governmental activities</b>	<b>\$ 250,158,412</b>	<b>\$ 1,671,851</b>	<b>152,834,456</b>	<b>(95,652,105)</b>
General revenues:				
Measure I sales tax				147,027,423
Gain on Sale of Capital Assets				228,460
Interest Income				7,746,517
<b>Total general revenues</b>				<b>155,002,400</b>
<b>Change in net assets</b>				<b>59,350,295</b>
Net assets, beginning				135,712,892
Net assets, ending				<b>\$ 195,063,187</b>

See Notes to Financial Statements.

San Bernardino Associated Governments

Balance Sheet—Governmental Funds  
June 30, 2006

	Major Funds			
	General	Local Transportation Fund Special Revenue	Measure I Special Revenue	Other Special Revenue
<b>Assets</b>				
Assets				
Cash and investments	\$ 3,696,182	\$ 52,514,043	\$ 129,130,623	\$ 11,824,232
Interest receivable	11,057	836,882	762,242	195,930
Due from other funds	-	-	11,892,421	-
Advance to other funds	-	-	1,587,293	-
Due from other governments	5,325	14,748,070	27,778,073	13,142,495
Prepaid expenses	171,143	-	-	-
Notes receivable, due from other governments	-	-	-	-
Other receivable	10	-	-	20,724
Investments, restricted	-	-	-	-
<b>Total assets</b>	<b>\$ 3,883,717</b>	<b>\$ 68,098,995</b>	<b>\$ 171,150,652</b>	<b>\$ 25,183,381</b>
<b>Liabilities and Fund Balances</b>				
Liabilities				
Accounts payable and other accrued expenses	\$ 378,410	\$ -	\$ 5,952,013	\$ 6,224,719
Due to other funds	-	-	-	11,575,935
Advance from other funds	-	-	-	1,587,293
Due to other governments	8,170	-	9,090,479	345,752
Deferred revenue	1,487	2,476,670	5,047,538	4,213,213
<b>Total liabilities</b>	<b>\$ 388,067</b>	<b>\$ 2,476,670</b>	<b>\$ 20,090,030</b>	<b>\$ 23,946,912</b>
Fund balances				
Reserved for:				
Prepays	171,144	-	-	-
Capital projects	-	13,088,985	-	-
Unpaid allocations	-	-	-	-
Advances to other funds	-	-	1,587,293	-
Amounts encumbered for subsequent years' expenditures	-	-	-	-
Unreserved:				
Designated unallocated apportionments	-	29,556,838	-	-
Designated for subsequent years' expenditures	766,167	-	34,912,977	1,236,469
Undesignated	2,558,339	22,976,502	114,560,352	-
<b>Total fund balances</b>	<b>3,495,650</b>	<b>65,622,325</b>	<b>151,060,622</b>	<b>1,236,469</b>
<b>Total liabilities and fund balance</b>	<b>\$ 3,883,717</b>	<b>\$ 68,098,995</b>	<b>\$ 171,150,652</b>	<b>\$ 25,183,381</b>

See Notes to Financial Statements.

Major Funds

	Debt Service	Other Nonmajor Government Funds	Total
\$	4,708,145	\$ 21,602,746	\$ 223,475,971
	21,311	335,212	2,162,634
	-	-	11,892,421
			1,587,293
	-	1,795,621	57,469,584
	-	-	171,143
	-	-	-
	-	428	21,162
	13,522,113	-	13,522,113
\$	18,251,569	\$ 23,734,007	\$ 310,302,321

	-	105,564	12,660,706
	-	316,486	11,892,421
			1,587,293
	-	2,620	9,447,021
	-	1,207	11,740,115
\$	-	\$ 425,877	\$ 47,327,556

	-	-	171,144
	-	-	13,088,985
	-	12,964,696	12,964,696
	-	-	1,587,293
	-	1,025,715	1,025,715
	-	-	29,556,838
	18,251,569	313,737	55,480,919
	-	9,003,982	149,099,175
	18,251,569	23,308,130	262,974,765
\$	18,251,569	\$ 23,734,007	\$ 310,302,321

San Bernardino Associated Governments

Reconciliation of the Balance Sheet of Governmental Funds to the  
Statement of Net Assets  
June 30, 2006

Total fund balances, governmental funds	<u>\$ 262,974,765</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>59,807,853</u>
Long-term liabilities are not due in the current period and, therefore, are not reported in the funds. The adjustment, which included the effect of insurance costs and premiums, combines the changes of the following components:	
Bonds payable	(139,005,000)
Bond issuance costs	551,226
Bond premium	(1,561,959)
Compensated absences	(389,933)
Accrued interest payable	<u>(2,277,434)</u>
	<u>(142,683,100)</u>
Net assets of the Internal Service Fund	4,916,491
Other liabilities not recognized in funds	<u>-</u>
Assets, net of related liabilities, that do not meet the "availability" criteria for revenue recognition are deferred in the funds.	<u>10,047,178</u>
<b>Total net assets of governmental activities (page 9)</b>	<u><u>\$ 195,063,187</u></u>

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds  
Year Ended June 30, 2006

	Major Funds			
	General	Local Transportation Fund Special Revenue	Measure I Special Revenue	Other Special Revenue
Revenue:				
Sales tax	\$ -	\$ -	\$ 148,073,689	\$ -
Local Transportation Fund	-	80,291,612	-	-
State Transit Assistance Fund	-	-	-	-
Registration fees	-	-	-	-
Investment income	67,426	1,509,943	4,631,508	275,400
Refunds	-	-	-	-
Federal	-	-	-	22,085,428
State	-	-	-	41,775,823
Other local revenue	76,664	-	-	2,633,990
	<u>144,090</u>	<u>81,801,555</u>	<u>152,705,197</u>	<u>66,770,641</u>
Expenditures:				
Current:				
Disbursements to cities, subareas, transit operators and claimants	-	63,989,596	48,014,215	-
Contributions to other governmental agencies	125,297	-	4,627,512	12,132,059
Salaries, wages and related items	2,474,305	-	762,268	299,505
Professional services	1,026,805	-	20,475,329	3,233,238
Transportation and travel	91,319	-	33,296	5,734
Communications	26,010	-	7,974	17,605
Office expense	1,138,660	-	481,970	86,587
Office furniture and equipment	28,668	-	61	246
Capital outlays	78,471	-	4,279	-
Management and technical services	-	-	525	4,172
Highway construction	-	-	18,654,222	59,318,156
Right of way	-	-	129,887	2,557,195
Other	-	-	-	-
Debt service:				
Bond principal	-	-	-	-
Bond interest	-	-	-	-
Cost of issuance	-	-	207,297	-
	<u>4,989,535</u>	<u>63,989,596</u>	<u>93,398,835</u>	<u>77,654,497</u>
Revenue over (under) expenditures	(4,845,445)	17,811,959	59,306,362	(10,883,856)
Other financing sources (uses):				
Proceeds on sale of property	-	-	-	240,315
Transfers in	5,520,558	-	11,043,865	10,270,034
Transfers out	(31,457)	(11,852,034)	(41,349,149)	(1,169,611)
Net change in fund balances	<u>643,656</u>	<u>5,959,925</u>	<u>29,001,078</u>	<u>(1,543,118)</u>
Fund balance, beginning	2,851,994	59,662,400	122,059,544	2,779,587
Fund balance, ending	<u>\$ 3,495,650</u>	<u>\$ 65,622,325</u>	<u>\$ 151,060,622</u>	<u>\$ 1,236,469</u>

See Notes to Financial Statements.

Major Funds

Debt Service	Other Nonmajor Governmental Funds	Total
\$ -	\$ -	\$ 148,073,689
-	-	80,291,612
-	6,222,728	6,222,728
-	1,639,975	1,639,975
609,156	653,084	7,746,517
-	116,797	116,797
-	-	22,085,428
-	-	41,775,823
-	-	2,710,654
609,156	8,632,584	310,663,223
-	1,836,779	113,840,590
-	-	16,884,868
-	59,929	3,596,007
-	58,125	24,793,497
-	1,501	131,850
-	99,453	151,042
-	1,513,602	3,220,819
-	-	28,975
-	-	82,750
-	181,845	186,542
-	-	77,972,378
-	-	2,687,082
-	-	-
30,900,000	-	30,900,000
8,118,156	-	8,118,156
44,721	-	252,018
39,062,877	3,751,234	282,846,574
(38,453,721)	4,881,350	27,816,649
-	-	240,315
39,039,540	-	65,873,997
(11,043,865)	(675,338)	(66,121,455)
(10,458,046)	4,206,012	27,809,506
28,709,615	19,102,118	235,165,258
\$ 18,251,569	\$ 23,308,130	\$ 262,974,764



San Bernardino Associated Governments

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities  
Year Ended June 30, 2006

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Net change in fund balances, total governmental funds (page 15)	\$ 27,809,506
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Amounts reported for governmental activities in the statement of activities  
(page 10) are different because:

Governmental funds report capital outlays as expenditures. However, in  
the statement of activities, the cost of those assets is allocated over  
their estimated useful lives and reported as depreciation expense. The  
adjustment combines the changes of the following amounts:

Sale/disposal of assets	\$ (11,855)	
Capital contributions to other governments	-	
Capital outlay	82,750	
Depreciation	<u>(77,051)</u>	
Net adjustment		(6,156)

Some expenditures reported in the statement of activities do not require  
the use of current financial resources and, therefore, are not reported as  
expenditures in governmental funds. The adjustment combines the  
changes of the following amounts:

Amortization of deferred charges	(259,364)	
Amortization of bond premium, net	728,346	
Change in accrued interest on long-term debt	<u>1,218,897</u>	
		1,687,879

Adjustment is made for revenues net of related expenditures that were previously recognized in the Statement of Activities	(1,087,706)
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Expenditures incurred for debt service principal payments	30,900,000
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Other expenditures not recognized in the fund statements	21,475
--	--------

The net revenue of certain activities of the internal service fund (adjusted  
for capital contribution) is reported with governmental activities.

Change in net asset of governmental activities (page 10)

25,297
<u>\$ 59,350,295</u>

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Net Assets—Proprietary Fund—Internal Service  
June 30, 2006

	Governmental Activities— Internal Service Fund
<b>Assets</b>	
Assets	
Cash and investments	\$ 239,000
Capital assets:	
Capital Assets	4,984,590
Less: accumulated depreciation	(307,098)
<b>Total capital assets, net</b>	<u>4,677,492</u>
<b>Total assets</b>	<u><u>\$ 4,916,492</u></u>
<b>Liabilities and Net Assets</b>	
Net Assets	
Invested in capital assets	\$ 4,677,492
Unrestricted	239,000
<b>Total liabilities and net assets</b>	<u><u>\$ 4,916,492</u></u>

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Revenue, Expenses and Changes in Net Assets—  
 Proprietary Fund—Internal Service  
 Year Ended June 30, 2006

	Governmental Activities— Internal Service Fund
Revenue, rent	\$ 289,156
Operating expenses:	
Depreciation	153,687
Operating Expenses	357,627
	511,314
<b>Operating (loss)</b>	<b>(222,158)</b>
Capital contributions—land	284,929
Transfers In	247,457
<b>Change in net assets</b>	<b>310,228</b>
Net assets, beginning	4,606,264
Net assets, ending	\$ 4,916,492

See Notes to Financial Statements.

San Bernardino Associated Governments

Statement of Cash Flows—Proprietary Fund—Internal Service  
Year Ended June 30, 2006

	Governmental Activities— Internal Service Fund
Cash Flows from Operating Activities	
Cash from customers	\$ 289,156
Cash paid to suppliers	(357,627)
<b>Net cash (used in) operating activities</b>	<u>(68,471)</u>
Cash Flows used in Capital Financing Activities	
Transfers from Other Funds For Capital Acquisition	247,456
Purchase of Capital Assets	(89,044)
Proceeds from sales of capital assets	-
<b>Net cash provided by capital and related financing activities</b>	<u>158,412</u>
<b>Net increase in cash and investments</b>	89,941
Cash and Investments	
Beginning	<u>149,059</u>
Ending	<u><u>\$ 239,000</u></u>
Reconciliation of Operating (Loss) to Net Cash (Used in) Operating Activities	
Operating (loss)	(222,158)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities, depreciation	<u>153,687</u>
<b>Net cash (used in) operating activities</b>	<u><u>\$ (68,471)</u></u>

See Notes to Financial Statements.

### Note 1. Summary of Significant Accounting Policies

**Reporting entity:** San Bernardino Associated Governments (SANBAG) was established in 1973 for the purpose of improving and coordinating governmental services on a countywide subregional basis. SANBAG acts as the San Bernardino County Transportation Commission (the Commission), established in 1977 under Division 12 (commencing with Section 130000) of the Public Utilities Code to provide transportation planning and programming at the local level. Funding for the Commission is provided from transportation funds and federal grant programs administered through the California Department of Transportation.

SANBAG also serves as the San Bernardino County Transportation Authority (the Authority), established under Division 19 (commencing with Section 18000) of the Public Utilities Code. The Authority is responsible for carrying out the provisions of the Ordinance, as described below, including the collection and allocation of Measure I sales tax revenue. The Ordinance was adopted by the voters of San Bernardino County (the County) and provides for the imposition of sales tax for transportation purposes, including, but not limited to, the administration of the Authority and the construction, maintenance, improvement and operation of local streets, roads and highways, state highways and freeways, and public transit systems. These purposes include expenditures for planning, environmental reviews, engineering and design costs, and related right-of-way acquisitions. They also include, but are not limited to, debt service on bonds and expenses in connection with the issuance of bonds.

The sales tax is imposed over a 20-year period from April 1, 1990 through March 31, 2010. Over that time, the tax was originally estimated to generate revenue in 1989 dollars of approximately \$1.72 billion. The original Expenditure Plan adopted by the Authority was calculated in 1989 dollars and contains a total of \$1.29 billion in expenditures. In June 1997, the Plan was revised to estimate total revenue and expenditures of approximately \$1.68 billion and \$1.65 billion, respectively, in actual dollars to date and projected with an average 5% growth rate through the end of the program. The Measure I Major Projects Cash Flow portion of the plan is reviewed semiannually and the revenue estimates are updated accordingly.

On November 2, 2004, the County's voters approved a 30-year renewal of Measure I through March 2040.

The accounting policies of SANBAG conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

**Blended component unit:** SANBAG also acts as the San Bernardino County Service Authority for Freeway Emergencies (SAFE), which was established by Section 2550 of the California Streets and Highways Code, authorizing the Board of Supervisors of the county and the city councils with a majority of the incorporated population to establish a service authority for freeway emergencies. The primary purpose of such an authority is to implement and maintain the operation of an emergency motorist aid system. In 1986 the Board of Supervisors of the County and the cities with a majority of the incorporated population established SAFE. Funding for SAFE is provided from an additional vehicle registration fee on vehicles registered in the County.

**Government-wide statements:** The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function and allocated indirect expenses.

**Note 1. Summary of Significant Accounting Policies, Continued**

**Fund financial statements:** The fund financial statements provide information about SANBAG's governmental funds. The emphasis of fund statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, including compensated absences, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Sales tax and intergovernmental revenues and interest associated with the current period are all considered to be susceptible to accrual.

SANBAG reports the following major governmental funds:

**General Fund** is the general operating fund of SANBAG and accounts for all financial resources and transactions except those required to be accounted for in another fund.

**Local Transportation Fund Special Revenues Fund** accounts for the sales tax dollars collected within the County and administered on behalf of the County by SANBAG.

**Measure I Special Revenue Fund** accounts for the revenue from sales taxes received under Measure I.

**Other Special Revenue Fund** accounts for proceeds derived from federal, state and local sources, which are legally restricted to finance **specific** transportation studies and projects.

**Debt Service Fund** accounts for the debt service on the sales tax revenue bonds.

Additionally, SANBAG reports the following proprietary fund type:

**Internal Service Fund** accounts for the operation and maintenance of SANBAG's headquarters building.

Significant accounting policies:

**Cash and investments:** Cash and cash equivalents include amounts in demand deposits, bank investment contracts, money market mutual funds and cash on deposit with the County of San Bernardino Treasury and the Local Agency Investment Fund (LAIF). Securities purchased with a maturity date greater than 90 days at the date of acquisition have been classified as investments.

Restricted assets represent unexpended proceeds, interest earnings thereon and reserve amounts of sales tax revenues bonds. Under related bond resolutions and indentures, any remaining bond proceeds are restricted for the use of future construction of improvements to the respective projects, for debt service or for reserve requirements. The majority of these proceeds are held by trustees and fiscal agents.

**Note 1. Summary of Significant Accounting Policies, Continued**

Cash in the County Treasury and LAIF is carried at fair value based on the value of each participating dollar as provided by the County Treasurer and LAIF. The fair value of SANBAG's position in the County pool and LAIF is the same as the value of the pool shares. Investments in U.S. Government and agency securities are carried at fair value based on quoted market prices. Money market mutual funds are carried at fair value based on the fund's share price.

**Interfund transactions:** Transactions among SANBAG funds that would be treated as revenues and expenditures or expenses if they involved organizations external to SANBAG are accounted for as revenues and expenditures or expense in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended are separately reported in the respective funds' operating statements.

Activity between funds that is representative of lending/borrowing arrangements at the end of the fiscal year is referred to as "due to/from other funds" or "advances to/from other funds."

**Capital assets:** Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by SANBAG as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Building, equipment and vehicles of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Type</u>	<u>Useful Life</u>
Buildings	39 years
Equipment and Furniture	5-7 years
Vehicles	5 years

**Compensated absences:** Regular, full-time employees earn vacation at the rate of 10 to 20 days per year based upon length of service. Vested accumulated vacation leave that is expected to be payable from available resources is reported as a liability of the General Fund, if matured, for example, as a result of employee retirements or terminations. The unmatured portion is included with long-term debt in the Government-wide financial statements.

Sick leave is recorded as an expenditure in the General Fund when taken by the employee. Employees who accrue in excess of 500 hours can convert them 2:1 into vacation leave. Any sick leave in excess of 500 hours is converted into vacation and accrued at fiscal year end as a liability reported in the government-wide financial statements. Converted sick leave, due and payable at year end, is reported in the General Fund.

**Deferred revenues:** Deferred revenues in the governmental funds represent amounts due to SANBAG which are measurable but not available.

## Notes to Financial Statements

## Note 1. Summary of Significant Accounting Policies, Continued

**Long-term debt:** In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activities fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Fund equity:** In the fund financials statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted for specific purposes. Designations of fund balance represent unspent portions of contracts that are expected to be appropriated and disbursed in the subsequent year.

**Net assets:** Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt, excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by SANBAG or through external restrictions by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation.

SANBAG first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Disbursements to cities and subareas:** Disbursements to cities and subareas represent the allocation of Measure I tax revenue within the San Bernardino Valley and Mountain-Desert areas. The annual distributions are made according to predetermined formulas, taking into account both population and sales tax generation factors.

**Contribution to other governmental agencies:** Contributions to other governmental agencies represent the disbursement of funds to other governmental agencies based on Board-approved projects that are within the guidelines of the Expenditure Plan.

## Note 2. Cash and Investments

Cash and investments at June 30, 2006 consist of the following:

	Unrestricted			Restricted	
	Cash	Investments	Total	Investments	Grand Total
Cash in bank	\$ 10,548,352	\$ -	\$ 10,548,352	\$ -	\$ 10,548,352
Petty cash	1,500	-	1,500	-	1,500
Cash in County Treasury	-	84,044,198	84,044,198	-	84,044,198
State pool deposits	-	6,627,427	6,627,427	-	6,627,427
Investments with fiscal agents or custodians	-	122,493,494	122,493,494	13,522,113	136,015,607
	<u>\$ 10,549,852</u>	<u>\$ 213,165,119</u>	<u>\$ 223,714,971</u>	<u>\$ 13,522,113</u>	<u>\$ 237,237,084</u>



**Note 2. Cash and Investments, Continued**

**Investments authorized:** SANBAG maintains cash and cash investments in accordance with its investment policy. The investment policy complies with, or is more restrictive than, applicable state statutes. SANBAG'S investment policy authorizes investments in U.S. Treasury notes and bonds, federal agency notes, commercial paper, corporate bonds, guaranteed investment contracts, bank certificates, money market mutual funds, repurchase agreements, the County of San Bernardino Treasury and LAIF. Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements.

**Disclosures related to interest rate risk:** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that SANBAG manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations. SANBAG monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio.

Investment Type	Amount Reported	Weighted Average Maturity (in Years)
U.S. Treasury Obligations	\$ 66,801,825	0.33
U.S. Government Sponsored		
Enterprise Securities:		
FHLB	15,082,840	0.56
FHLMC	12,209,477	0.75
FNMA	12,925,009	0.72
Commercial Paper	15,436,842	0.06
Local Agency Investment Fund (LAIF)	6,627,427	0.42
San Bernardino County Pool	84,044,198	0.89
Money Market Mutual Funds	13,559,614	N/A
	<u>\$ 226,687,232</u>	

**Investments with fair values highly sensitive to interest rate fluctuations:** SANBAG's portfolio has no investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above.)

## Notes to Financial Statements

## Note 2. Cash and Investments, Continued

**Disclosures relating to credit risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table are the Standard and Poor's credit rating for SANBAG's investments:

Investment	Total as of June 30, 2006	Exempt from Disclosure	AAA	A-1 / A-1+	Not Rated
U.S. Treasury obligations	\$ 66,801,825	\$ 66,801,825	\$ -	\$ -	\$ -
U.S government-sponsored enterprise securities:					
FHLB	15,082,840	-	15,082,840	-	-
FHLMC	12,209,477	-	12,209,477	-	-
FNMA	12,925,009	-	12,925,009	-	-
Commercial Paper*	15,436,842	-	-	15,436,842	-
LAIF	6,627,427	-	-	-	6,627,427
San Bernardino County Pool	84,044,198	-	84,044,198	-	-
Money Market Mutual Funds	13,559,614	-	13,559,614	-	-
	<u>\$ 226,687,232</u>	<u>\$ 66,801,825</u>	<u>\$ 137,821,138</u>	<u>\$ 15,436,842</u>	<u>\$ 6,627,427</u>

\* These are the highest short-term Standard & Poor's Ratings for Commercial Paper.

**Concentration of credit risk:** SANBAG is in compliance with restrictions imposed by its investment policy, which limits certain types of investments. As of June 30, 2006, in accordance with GASB Statement No. 40, if SANBAG has invested more than 5% of its total investments in any one issuer, then they are exposed to credit risk. The following investments are considered to be exposed to credit risk:

Investment Type	Amount Reported	Percentage
FHLB	15,082,840	6.7%
FHLMC	12,209,477	5.4%
FNMA	12,925,009	5.7%

**Custodial credit risk:** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and SANBAG's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Notes to Financial Statements

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**Note 2. Cash and Investments, Continued**

As of June 30, 2006, SANBAG has deposits with a balance of \$13,111,933 of which \$100,000 is federally insured and the balance is collateralized in accordance with the Code.

**California Local Agency Investment Fund:** SANBAG is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of SANBAG's investments in this pool is reported in the accompanying financial statements at amounts based upon SANBAG's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawals is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

**San Bernardino County Treasury Pool:** SANBAG is a voluntary participant in the San Bernardino County Treasury Pool. An Investment Oversight Committee has been established by the County, which acts as regulator of the pool. The funds in the County Treasury are pooled with those of other entities in the County and invested. These pooled funds are carried at fair market value. Fair market value as provided by the county, is based on quoted market prices and/or direct bids, when needed, from government dealer and some variable or floating rate items.

**Note 3. Interfund Transactions**

The composition of interfund balances consists of due to/from other funds, advances between funds and operating transfers. The due to/from other funds represents temporary cash borrowings. Advances are long-term borrowings of cash between funds. Transfers are used to subsidize the activities of other funds and move revenues from the fund that is required to collect them to the fund that expends them. The following is a list of interfund transactions:

	Due To/From	
	Receivables	Payables
Due to/from Special Revenue Fund:		
Measure I	\$ 11,892,421	\$ -
Other Special Revenue Fund	-	11,575,935
Other Nonmajor Governmental Funds	-	316,486
	<u>\$ 11,892,421</u>	<u>\$ 11,892,421</u>
	Advances To/From	
	Receivables	Payables
Advances to/from Special Revenue Fund:		
Measure I	\$ 1,587,293	\$ -
Other Special Revenue Fund	-	1,587,293
	<u>\$ 1,587,293</u>	<u>\$ 1,587,293</u>

San Bernardino Associated Governments

Notes to Financial Statements

Note 3. Interfund Transactions, Continued

	Transfers	
	In	Out
Operating transfers:		
General Fund	\$ 3,441,558	\$ -
Major Special Revenue Fund:		
Measure I	-	2,309,609
Other Special Revenue Fund	-	953,611
Nonmajor Governmental Fund	-	178,338
General Fund	2,079,000	-
Major Special Revenue Fund:		
Local Transportation Fund	-	11,852,034
Other Special Revenue Fund	10,270,034	-
Nonmajor Governmental Fund	-	497,000
General Fund	-	31,457
Other Special Revenue Fund	-	216,000
Internal Service Fund	247,457	-
Special Revenue Fund, Measure I	11,043,865	39,039,540
Debt Service Fund	39,039,540	11,043,865
	<u>\$ 66,121,454</u>	<u>\$ 66,121,454</u>

# San Bernardino Associated Governments

## Notes to Financial Statements

### Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reclasses	Retirements	Ending Balance
Government activities:					
Land	\$ 59,896,302	\$ -	\$ -	\$ (11,855)	\$ 59,884,447
Construction in progress	-	89,044	-		89,044
Total capital assets not being depreciated	59,896,302	89,044	-	(11,855)	59,973,491
Capital assets being depreciated:					
Buildings	4,610,617	-	(30,092)	-	4,580,525
Equipment, furniture and vehicles	5,982,847	82,750	30,092	(1,509)	6,094,180
Total capital assets being depreciated	10,593,464	82,750	-	(1,509)	10,674,705
Less accumulated depreciation for:					
Buildings	(153,411)	(152,685)	727	-	(305,369)
Equipment, furniture and vehicles	(5,780,211)	(78,054)	(727)	1,509	(5,857,483)
Total accumulated depreciation	(5,933,622)	(230,739)	-	1,509	(6,162,852)
Total capital assets being depreciated, net	4,659,842	(147,989)	-	-	4,511,853
Government activities capital assets, net	\$ 64,556,144	\$ (58,945)	\$ -	\$ (11,855)	\$ 64,485,344

Depreciation expense was charged to functions/programs of the government as follows:

Government activities:	
General government	\$ 77,051
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	153,687
Total depreciation expense, governmental activities	\$ 230,738

## Notes to Financial Statements

## Note 5. Long-term Liabilities

The following is a summary of the changes in the long-term obligations for the year ended June 30, 2006:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Due within One year
Revenue bonds payable	\$ 169,905,000	\$ -	\$ 30,900,000	\$ 139,005,000	\$ 32,250,000
Bond discount/premium, net	2,290,305	-	728,346	1,561,959	-
Compensated absences	304,549	127,233	41,849	389,933	63,652
Total long-term obligation	\$ 172,499,854	\$ 127,233	\$ 31,670,195	\$ 140,956,892	\$ 32,313,652

**Revenue bonds:** Revenue bonds payable as of June 30, 2006 consist of the following:

	Amount Outstanding
<b>1996 Series A Sales Tax Revenue Bonds-Original Issue \$65,035,000:</b> The remaining issue consists of \$22,630,000 in serial bonds, which have scheduled maturities through March 1, 2010 and interest rates varying from 4.00% to 6.25%. The 1996 Series A Bonds are not subject to redemption prior to stated maturities.	\$ 22,630,000
<b>1997 Series A Sales Tax Revenue Bonds-Original Issue \$65,000,000:</b> The issue consists of \$37,305,000 in serial bonds outstanding at June 30, 2006, which have scheduled maturities through March 1, 2010 and interest rates varying from 3.90% to 5.25%. Those bonds maturing after March 1, 2008 are subject to redemption beginning March 1, 2008.	37,305,000
<b>2001 Series A Sales Tax Revenue Bonds-Original Issue \$85,000,000:</b> The issue consists of \$41,710,000 in serial bonds outstanding at June 30, 2006, which have scheduled maturities through March 1, 2010 and interest rates varying from 3.50% to 5.00%. The Series A Bonds are not subject to redemption prior to stated maturities.	41,710,000
<b>2001 Series B Sales Tax Revenue Funding (Limited Tax) Bonds-Original Issue \$47,020,000:</b> The issue consists of \$37,360,000 in serial bonds outstanding at June 30, 2006, which have scheduled maturities through March 1, 2010 and interest rates varying from 3.50% to 5.00%. The Series B Bonds are not subject to redemption prior to stated maturities.	37,360,000
	<u>\$ 139,005,000</u>

Certain member agencies of SANBAG have participated with SANBAG in its revenue bond offerings. The Measure I sales tax distributions, otherwise due to these agencies from SANBAG, will be used for their debt service. The amount due to SANBAG from these agencies approximates \$3,734,771 at June 30, 2006.

## Note 5. Long-term Liabilities

The bonds are secured by a pledge of all receipts of sales tax, less an administrative fee of 1.58% of sales tax receipts paid to the State Board of Equalization for administration, and less sales tax receipts allocable to the Mountain-Desert region, except for certain jurisdictions covered by the pledge.

## Notes to Financial Statements

## Note 5. Long-term Liabilities, Continued

Interest on bonds is payable semiannually on March 1 and September 1 of each year. The annual debt service requirements are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 32,250,000	\$ 6,832,308	\$ 39,082,308
2008	33,875,000	5,146,596	39,021,596
2009	35,500,000	3,453,007	38,953,007
2010	37,380,000	1,833,156	39,213,156
	<u>\$ 139,005,000</u>	<u>\$ 17,265,067</u>	<u>\$ 156,270,067</u>

## Note 6. Lease Commitments and Total Rental Expense

SANBAG leases various office space under leases expiring in February 2011. In addition, SANBAG leases a copier under a five-year lease agreement expiring in January 2009. The leases provide that the lessee shall pay all insurance and maintenance. The total rental expenditures included in the financial statements for the year ended June 30, 2006 were \$218,360.

The total minimum rental commitment at June 30, 2006 is due as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2007	\$ 194,348
2008	179,594
2009	116,512
2010	103,000
2011	43,750
	<u>\$ 637,204</u>

## Note 7. Pension Plan

## San Bernardino County Employees' Retirement Association

**Plan description:** SANBAG contributions to the San Bernardino County Employees' Retirement Association (SBCERA), a cost-sharing, multiple-employer, defined benefit pension plan. SBCERA provides members with retirement, death, disability and cost-of-living benefits. SBCERA issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to San Bernardino County Employees' Retirement Association, 195 North Arrowhead Avenue, San Bernardino, California, 92425-0014.

**Note 7. Pension Plan, Continued**

**Funding policy:** General members are required to contribute 8.86% to 12.65% of their annual compensation to SBCERA. SANBAG is required to make periodic contributions to SBCERA in amounts that are estimated to remain a constant percentage of covered employee compensation such that, when combined with covered employees' contributions, will fully provide for all covered employees' benefits by the time they retire. The current employer rate is 17.94%. SANBAG has elected to pay the employees' portion of contributions. SANBAG's contributions to SBCERA for the years ended June 30, 2006 and 2005 were \$733,938 and \$547,264, respectively, which equal the required contributions for those years.

**Note 8. Commitments and Subsequent Events**

**Outstanding contracts:** As of June 30, 2006, SANBAG had contracted, subject to future Board appropriation, for professional and special services for various transportation projects, including transit studies, right-of-way purchases and construction, that have not yet been rendered. The aggregate amount committed under these contracts is \$166,797,793 at June 30, 2006. Of this total, \$55,746,310 is expected to be expended in the year ending June 30, 2007.

**Note 9. Joint Venture**

SANBAG is one of five members of the Southern California Regional Rail Authority (SCRRA), a joint powers authority created in June 1992. The SCRRA's Board consists of one member from the Ventura County Transportation Commission; two each from the Orange County Transit Authority; SANBAG and the Riverside County Transportation Commission; and four members from Los Angeles County Metropolitan Transportation Authority. The SCRRA is responsible for implementing and operating a regional commuter rail system (Metrolink) in five Southern California counties. As a member of the SCRRA, SANBAG makes capital and operating contributions for its pro rata share of rail lines servicing the County. SANBAG expended \$8,830,281 during 2006 for its share of Metrolink capital and operating costs. Separate financial statements are prepared by and available from the SCRRA. As of June 30, 2006, SCRRA reported total equity of \$710,384.

As disclosed on SCRRA's financial statements, SCRRA was involved in what is referred to as the Glendale incident that occurred on January 26, 2005. This was the result of a collision that occurred in the city of Glendale between a passenger vehicle purposely wedged onto SCRRA track and the southbound Metrolink train. Upon collision, the Metrolink train derailed and struck a parked freight locomotive causing this southbound train to jack knife into a northbound Metrolink train. The ensuing derailment resulted in 11 fatalities and multiple passenger injuries, the loss of several Metrolink rail cars and damage to the track and right of way property. In this incident, SCRRA is self-insured for the first \$5,000,000 of potential claims, after which a group of insurance companies will assume the responsibility of defending claims. The insurance companies provide coverage for claims up to \$146,000,000. It is uncertain how many lawsuits will eventually be filed or when any court proceedings may begin. The probable outcome, such as the amount of claims paid, cannot be estimated at the present time. The ultimate effect, if any, of these matters is not presently determinable.



**Note 10. Contingency**

In the ordinary course of business, SANBAG is exposed to claims, asserted or unasserted, that may arise from its performance under contractual agreements and other matters. In the opinion of management, settlement of such claims, if any, will not have a material adverse effect on SANBAG's financial position, results of operations or liquidity.

San Bernardino County and the San Bernardino County Flood Control District have filed a suit for indemnity, contribution and declaratory relief against SANBAG. This litigation stems from a dispute regarding the 20th Street Storm Drain facility related to the construction of the 210 freeway that has arisen in a quiet title action and a separate inverse condemnation action the Colonies brought against the District and/or the County. SANBAG will contest the case vigorously. At this time, because the case is in its early stages, SANBAG cannot predict the likely outcome or potential liability, if any. The amount claimed by the County and District has not yet been determined.

**Note 11. Future Revenues Pledged**

In December 2005, the SANBAG Board approved a project advancement strategy that would allow agencies to advance the SANBAG Nexus Study interchange, arterial, and grade separation projects to construction, prior to the availability of Measure I 2010-2040 revenues. Projects eligible for advancement include projects defined in the SANBAG Nexus Study in the urban areas of the county or projects defined in the Measure I 2010-2040 Expenditure Plan in the non-urban areas of the county. Since June 30, 2006, SANBAG has entered into 16 Project Advancement Agreements with local jurisdictions that total \$69,646,878 for Freeway Interchange Projects and Major Street Projects. These agreements will allow local jurisdictions to design and construct specific projects identified in each respective agreement immediately with the understanding that SANBAG will reimburse the local jurisdiction for eligible project expenditures at a later date commencing with new Measure I 2010-2040 revenue and in accordance with the reimbursement schedule to be established in the new Measure I 2010-2040 Strategic Plan. SANBAG expects to enter into additional Project Advancement Agreements.

Revenue from Measure I 2010-2040 designated for the Freeway Interchange and Major Streets Projects Programs will not be available until 2010 or later. The purpose of these agreements is to allow cities to use their own local (non-SANBAG) funds to construct eligible projects immediately with the understanding that SANBAG will reimburse cities for eligible project expenditures at a later date with Measure I 2010-2040 revenue. The reimbursement schedule will be determined in the Measure I 2010-2040 Strategic Plan. Said allowable project expenditures will not be reimbursed until a date is determined by the Measure I 2010-2040 Strategic Plan, until such time as sufficient Measure I 2010-2040 revenue exists to fund those eligible project reimbursements and until the cities have satisfied any and all necessary project requirements.

# San Bernardino Associated Governments

## Notes to Financial Statements

### Note 12. Restricted/Unrestricted Net Assets

The components of restricted/unrestricted net assets are as follows:

	Distribution to Cities	Highway Construction	Debt Service	Other Restricted	Unrestricted	Capital Assets, Net	Total
Fund Balances prior to reclassifications:							
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 3,495,651	\$ -	\$ 3,495,651
LTF <sup>(A)</sup>	65,622,326	-	-	-	-	-	65,622,326
Measure I <sup>(B)</sup>	75,530,311	49,850,005	-	25,680,306	-	-	151,060,622
Other Special Revenue <sup>(C)</sup>	-	1,236,469	-	-	-	-	1,236,469
Debt Service <sup>(D)</sup>	-	-	18,251,568	-	-	-	18,251,568
STA Funds <sup>(E)</sup>	22,669,159	-	-	-	-	-	22,669,159
SAFE <sup>(F)</sup>	-	-	-	638,970	-	-	638,970
Fund balances prior to reclassifications	163,821,796	51,086,474	18,251,568	26,319,276	3,495,651	-	262,974,765
Reclassifications:							
Capital assets, net	-	-	-	-	-	59,807,854	59,807,854
Bonds	-	-	(18,251,568)	-	(120,753,432)	-	(139,005,000)
Accrued interest	-	-	-	-	(2,277,436)	-	(2,277,436)
Deferred charges	-	-	551,226	-	-	-	551,226
Premium	-	-	(1,561,959)	-	-	-	(1,561,959)
Deferred income	2,476,670	-	-	-	7,570,506	-	10,047,176
Accrued compensation	-	-	-	-	(63,652)	-	(63,652)
Other liabilities	-	-	-	-	(326,281)	-	(326,281)
ISF	-	-	-	-	239,000	4,677,491	4,916,491
	166,298,466	51,086,474	(1,010,733)	26,319,276	(112,115,644)	64,485,345	(67,911,581)
Reclassifications	-	-	1,010,733	-	(1,010,733)	-	-
Adjusted total	\$ 166,298,466	\$ 51,086,474	\$ -	\$ 26,319,276	\$ (113,126,377)	\$ 64,485,345	\$ (67,911,581)

**Restricted net assets:** The government-wide Statement of Net Assets reports \$243,704,215 million in restricted net assets. \$242,467,746 million is restricted by enabling legislation.

- (A) LTF Funds (Local Transportation Funds), which are derived from a 1/4 cent of general sales taxes collected statewide, are restricted under the Transportation Development Act of 1971, which provides funding to be allocated for transit- and nontransit-related purposes that comply with regional transportation plans. Restricted funds relate to approved allocations unpaid, unreserved designated unallocated apportionments, and unapportioned funds.
- (B) Measure I Funds, which are derived from a 1/2 cent general sales tax collected countywide, was approved by county voters in November 1989. They are allocated for transportation improvement programs within specific geographic areas in San Bernardino County according to percentages as defined by Measure I. Based on the ordinance, a portion of these funds are legally restricted to the SANBAG Board-approved transportation program expenditures that relate to the Valley and Mountain/Desert, administration, major project construction, arterial, commuter rail, elderly and handicapped, and traffic mitigation and environmental enhancement projects.
- (C) Other Special Revenue Funds include local contributions or state funds that are designated for specific transportation projects.

**Note 12. Restricted/Unrestricted Net Assets, Continued**

- (D) Debt Service Funds are amounts required by bond trust agreements.
- (E) STA Funds (State Transit Assistance Funds), which are derived from the statewide sales tax on gasoline and diesel fuel, was created under Chapter 161 of the Statutes of 1979 (SB620), revised by Chapter 322 of the Statutes of 1982 (AB 2551) and Chapter 105 of the Statutes of 1989 (SB300). They are a second source of TDA funding for mass transportation purposes only as specified by the legislation. Restricted funds relate to approved allocations unpaid and unallocated funds.
- (F) SAFE Funds (Service Authority for Freeway Emergencies) are derived from an annual \$1 vehicle registration fee from vehicles registered in San Bernardino County for implementation and maintenance of an emergency motorist aid system on the California freeway and expressway system in San Bernardino County, which includes the call box program.

**Note 13. Pronouncements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2006 that have effective dates that may impact future presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of SANBAG.

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

## Supplementary Information

**Nonmajor Governmental Funds Description**

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**Special Revenue Funds**

**State Transit Assistance Fund:** This fund is used to account for revenues restricted for transit projects.

**Service Authority for Freeway Emergencies:** This fund is used to record the revenues received from Department of Motor Vehicle fees for the purpose of implementing an emergency call box system for motorists.

San Bernardino Associated Governments

Combining Balance Sheet—Nonmajor Governmental Funds  
June 30, 2006

	Special Revenue		
	State Transit Assistance Fund	Service Authority for Freeway Emergencies	Total
<b>Assets</b>			
Assets			
Cash and investments	\$ 20,863,245	\$ 739,501	\$ 21,602,746
Interest receivable	326,351	8,861	335,212
Other receivable		428	428
Due from other governments	1,479,563	316,058	1,795,621
<b>Total assets</b>	<b>\$ 22,669,159</b>	<b>\$ 1,064,848</b>	<b>\$ 23,734,007</b>
<b>Liabilities and Fund Balances</b>			
Liabilities			
Accounts payable and other accrued expenses	\$ -	\$ 105,564	\$ 105,564
Due to other funds	-	316,486	316,486
Due to other governments	-	2,620	2,620
Deferred revenue	-	1,207	1,207
<b>Total liabilities</b>	<b>\$ -</b>	<b>\$ 425,877</b>	<b>\$ 425,877</b>
Fund balances			
Reserved for:	-	-	-
Unpaid allocations	12,964,696	-	12,964,696
Amounts encumbered for subsequent years' expenditures	1,025,715		1,025,715
Unreserved:			
Designated for subsequent years' expenditures		313,737	313,737
Undesignated	8,678,748	325,234	9,003,982
<b>Total fund balances</b>	<b>22,669,159</b>	<b>638,971</b>	<b>23,308,130</b>
<b>Total liabilities and fund balances</b>	<b>\$ 22,669,159</b>	<b>\$ 1,064,848</b>	<b>\$ 23,734,007</b>

San Bernardino Associated Governments

Combining Statement of Revenues, Expenditures and Changes in Fund Balances—Nonmajor  
Governmental Funds  
Year Ended June 30, 2006

	State Transit Assistance Fund	Service Authority for Freeway Emergencies	Total
Revenue:			
State Transit Assistance Fund	\$ 6,222,728	\$ -	\$ 6,222,728
Registration fees	-	1,639,975	1,639,975
Investment income	599,115	53,969	653,084
Refunds	31,318	85,479	116,797
	<u>6,853,161</u>	<u>1,779,423</u>	<u>8,632,584</u>
Expenditures:			
Current:			
Disbursements to cities, subareas, transit operators and claimants	1,836,779	-	1,836,779
Salaries, wages and related items	-	59,929	59,929
Professional services	-	58,125	58,125
Transportation and travel	-	1,501	1,501
Communications	-	99,453	99,453
Office expense	-	1,513,602	1,513,602
Capital outlays	-	-	-
Management and technical services	-	181,845	181,845
	<u>1,836,779</u>	<u>1,914,455</u>	<u>3,751,234</u>
Revenue over (under) expenditures	5,016,382	(135,032)	4,881,350
Other financing sources (uses), transfers out	(497,000)	(178,338)	(675,338)
Net change in fund balances	<u>4,519,382</u>	<u>(313,370)</u>	<u>4,206,012</u>
Fund balance, beginning	18,149,777	952,341	19,102,118
Fund balance, ending	<u>\$ 22,669,159</u>	<u>\$ 638,971</u>	<u>\$ 23,308,130</u>

### Section III

#### Ten-year Trend of Governmental Revenues



San Bernardino Associated Governments

General Governmental Revenue by Source  
Last Ten Fiscal Years

Fiscal Year	Sales Tax	Local Transportation Fund	State Transit Assistance Fund	Vehicle Registration Fees	Other Local
1996-97	\$ 64,846,755	\$ 33,557,163	\$ 2,041,293	\$ 1,168,315	\$ 991,374
1997-98	69,644,443	36,286,440	2,278,110	1,192,431	666,766
1998-99	73,244,075	38,847,113	2,715,153	1,242,704	1,319,750
1999-00	84,413,385	43,994,109	2,728,606	1,285,478	5,403,710
2000-01	90,618,695	48,566,103	2,838,017	1,331,954	2,363,292
2001-02	94,524,807	49,713,962	5,694,689	1,361,485	5,265,682
2002-03	104,063,009	54,693,963	2,956,387	1,405,996	2,033,947
2003-04	111,575,283	59,335,936	3,242,050	1,487,896	4,336,062
2004-05	131,902,744	69,042,522	3,775,237	1,575,365	3,353,696
2005-06	148,073,689	80,291,612	6,222,728	1,639,975	2,710,654

Investment Income	Federal	State	Refunds	Other Financing Sources	Total
\$ 6,540,335	\$ 1,104,080	\$ 1,167,866	\$ 8,941,073	\$ -	\$ 120,358,254
8,560,970	1,382,521	979,390	5,578,848	-	126,569,919
7,694,034	1,714,206	4,192,958	5,784,424	-	136,754,417
9,745,522	3,052,411	3,893,749	1,559,912	-	156,076,882
9,125,119	20,597,662	5,500,695	205,795	-	181,147,332
9,154,912	69,100,788	7,403,669	237,709	-	242,457,703
5,562,045	31,060,639	4,045,087	205,291	-	206,026,364
1,284,521	3,003,402	25,329,378	209,597	-	209,804,125
4,924,308	11,677,403	25,016,959	940,204	-	252,208,438
7,746,516	22,085,428	41,775,823	116,797	240,315	310,903,537